Metro Trust

The Metropolitan Trust Company

Annual Report 1977

"All kinds of services
for all kinds of people"

T. Stewart Ripley, President.

President's Report

Your Company's growth since inception has come from two main sources. We have grown in our traditional role as a financial intermediary by attracting new business and adding new services for our customers. Secondly, Metro Trust has pursued profitable mergers and acquisitions which have enabled the Company to expand dramatically in size and scope. In 1977, our efforts along both these lines produced an outstanding year and a new level of earnings and assets.

Net earnings increased from $1,969,000 to $4,442,000. Per share earnings rose from $2.48 to $4.30, an increase of 73.4%. Profits on sales of securities accounted for $747,000 or 72¢, up from $31,000 or 4¢ per share in 1976. Transohio Financial Corporation, an affiliated company, contributed $684,000 or 66¢ per share from the date of our investment, September 16, 1977.

As a result of these earnings, our balance sheet continues to be in excellent shape. Our growth in Company and Guaranteed assets increased 20%, up from $447,847,000 to $540,187,000. Total assets under administration at December 31, 1977 were $1,367,081,000.

Highlights of achievements in our traditional services, the majority of which recorded substantial gains, are outlined in the Operations Report.

Pursuing our other avenue of growth, in 1977 we became the major shareholder of Transohio Financial Corporation, one of the largest U.S. savings and loan holding companies. Transohio had assets at year end of U.S. $1,473,262,000. We purchased 23.66% of the outstanding shares of the corporation for a total consideration of $11,805,000 (Canadian). The details are more fully explained in note 2 to the financial statements. The purchase was completed on September 16, 1977 and the Company's equity in the earnings of Transohio from that date is reflected in our balance sheet and more fully explained in note 1(b) to the financial statements.

This purchase represents a major commitment on the part of your Company. It is an investment in the U.S. savings and loan industry, which is highly similar to our own, and an investment in an economy which is internationally recognized for its strength and security. Your Chairman of the Board and I have both been appointed to the Board of Directors of Transohio and serve on its Audit and Executive Committees, respectively.

This substantial investment in Transohio could have been made using guaranteed or deposit funds. However, due to its nature and size, your Directors believed that the Company's capital should be used. Therefore, a rights offering was extended to shareholders in late 1977 to raise an additional $8,587,000. This offer, plus our growth in retained earnings and our participation in Transohio's fourth quarter earnings, increased shareholders' equity by $12,539,000 to a new total of $35,405,000, up from $22,866,000 at the end of 1976.

The second major acquisition was made late in the year when we entered into an agreement to consolidate our position as a major shareholder in Canreit Advisory Corporation. Early in 1978 we increased our holdings to 100% of the company.

Canreit Advisory Corporation is the advisor to Canadian Realty Investors trust. The business of the trust is commercial mortgage lending, an endeavour with which we are most familiar. Units of the trust are listed on the Toronto Stock Exchange. Through the Advisor, we now also own approximately 6% of the outstanding units of the trust and we intend to acquire up to 25%.

Steps are already underway to rearrange the existing financial structure of the trust which, when accomplished, should improve its earning capabilities. Its progress will be reflected in Metro Trust's earnings, although we expect no significant effect until 1979.

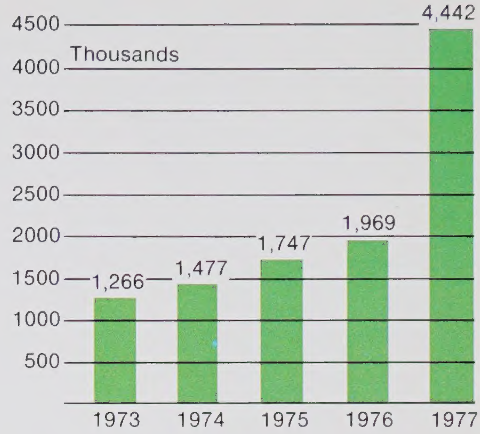
Our financial performance in 1977 was very satisfying in light of the economic climate in which we operated. Most companies found it far from easy to maintain past growth rates given the combined effects of inflation, unemployment and income restraints. Wage and price controls continued to have a negative impact on both the personal and corporate sectors. The threat to Canadian unity posed by the Quebec government was a further brake on the national economy.

New legislation also created uncertainties. Changes to the Bank Act were delayed once again. Amendments proposed by the federal government could significantly affect our industry. In addition, Ottawa gave considerable priority to the Borrowers and Depositors Protection Act which could force major changes on the mortgage market. Though well-intentioned, this bureaucratic and sometimes confused legislation would increase costs and lending rates while providing few real benefits to the consumer.

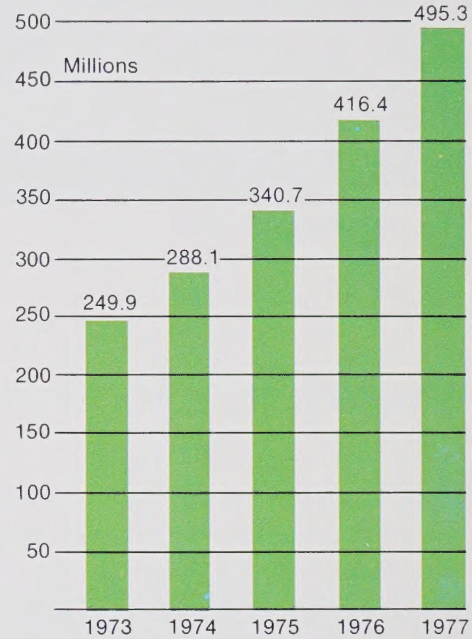
Yet, despite this uncertain and difficult environment, we had our most successful year. Unquestionably, the decline in interest rates during the first half of the year made a substantial contribution to earnings. This decline, occasioned by rapid downward revisions in the Bank of Canada rate, was more precipitous than we had expected.

For 1978, we are more cautious. Rates may trend upwards in light of the increase in the U.S. interest

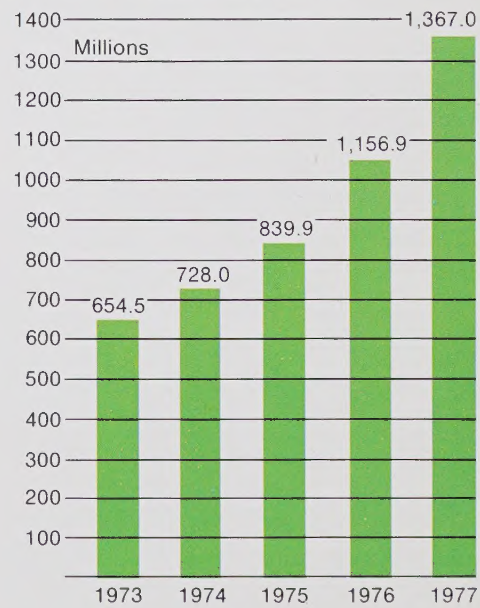
Net Earnings



Growth of Deposits (Cumulative)



Total Assets Under Administration



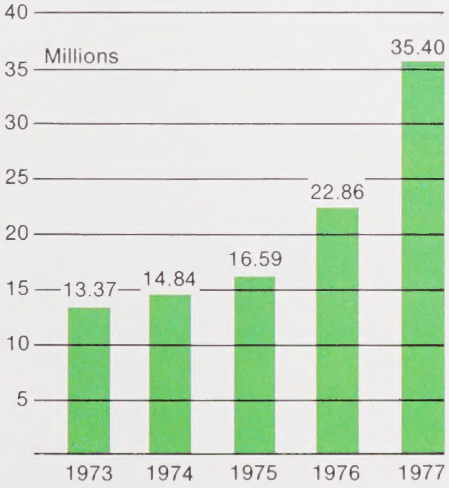
rate structure, despite every indication of a strong cash position among Canadian financial institutions. A rate increase may be only temporary, but possibly recurring.

Also in the coming year, our emphasis will be towards products and services that appeal to Canada's cost conscious consumers. This marketing thrust will be supported by advances in our approach to customers through the use of automated systems and facilities. This strategy will be backed up by a strong, effective advertising program.

Four years ago, we introduced the concept of stock dividends to our industry. For the past two years, because of Anti-Inflation Board regulations, we have been limited to paying a 5% stock dividend coupled with a cash dividend. A.I.B. regulations on dividends will not be removed until October of 1978; therefore, this dividend policy will likely be repeated this year.

It is with sadness and a great sense of loss that we record the passing of Lawrence W. Skey, D.F.C. Mr. Skey was a founding Director of the Company and made an extraordinary contribution, both as a Board member and as a member of the Executive Committee. To fill this vacancy on our Board, we were fortunate to have Mr. J. Christopher Barron accept our invitation to become a Director. In the short time he has been associated with us, he has given every indication that his contribution will be outstanding.

Shareholders' Equity



Rudolf V. Frastacky, Chairman of the Board.

The Honourable Douglas S. Harkness will not stand for re-election this year, having reached the statutory retirement age. Mr. Harkness has served the Company as a Director since 1964 and has made an invaluable contribution to our growth. We will miss his counsel and advice.

Finally, we could not have accomplished another banner year without the diligence and dedication of our employees. It is this human resource that over the past fifteen years has made it all possible. On behalf of our Board and shareholders, to all of our employees, thanks for a job well done.

T. S. RIPLEY, President

Our Growth in Brief

Assets, Deposits and Borrowings and Equity at December 31

	1977	1976	1975	1974	1973
Mortgages	$ 376,266,000	$ 335,584,000	$ 272,647,000	$ 224,674,000	$ 190,680,000
Other Company and Guaranteed Account Assets	151,505,000	112,263,000	88,456,000	80,753,000	75,564,000
Investment in Affiliated Company, Transohio Financial Corporation, at equity	12,416,000	—	—	—	—
	540,187,000	447,847,000	361,103,000	305,427,000	266,244,000
Estates, Trusts and Agencies	826,894,000	709,035,000	478,752,000	422,594,000	388,294,000
Total Assets under Administration	$1,367,081,000	$1,156,882,000	$ 839,855,000	$ 728,021,000	$ 654,538,000
Savings and Term Deposits and Investment Certificates	$ 495,304,000	$ 416,398,000	$ 340,720,000	$ 288,115,000	$ 249,930,000
Deferred Income Taxes and Other Liabilities	$ 9,478,000	$ 8,583,000	$ 3,792,000	$ 2,468,000	$ 2,949,000
Shareholders' Equity	$ 35,405,000	$ 22,866,000	$ 16,591,000	$ 14,844,000	$ 13,365,000

Earnings

	1977	1976	1975	1974	1973
Earnings before Profits on Sales of Securities, Extraordinary Credit and Equity in Earnings of Affiliated Company	$ 3,011,000	$ 1,938,000	$ 1,703,000	$ 733,000	$ 1,229,000
Profits on Sales of Securities	747,000	31,000	44,000	744,000	21,000
Earnings before Extraordinary Credit and Equity in Earnings of Affiliated Company	3,758,000	1,969,000	1,747,000	1,477,000	1,250,000
Extraordinary Credit — Tax Reduction	—	—	—	—	16,000
Earnings before Equity in Earnings of Affiliated Company	3,758,000	1,969,000	1,747,000	1,477,000	1,266,000
Equity in Earnings of Affiliated Company	684,000	—	—	—	—
Net Earnings	$ 4,442,000	$ 1,969,000	$ 1,747,000	$ 1,477,000	$ 1,266,000
Earnings per share (note)					
Earnings before Profits on Sales of Securities, Extraordinary Credit and Equity in Earnings of Affiliated Company	$2.92	$2.44	$2.30	$ .99	$1.70
Profits on Sales of Securities	.72	.04	.06	1.01	.03
Extraordinary Credit — Tax Reduction	—	—	—	—	.02
Equity in Earnings of Affiliated Company	.66	—	—	—	—
Net Earnings	$4.30	$2.48	$2.36	$2.00	$1.75

Note: For comparative purposes, the earnings per share of prior years have been restated to reflect 5% stock dividends paid in 1977, 1976, 1975 and 1974.

Tall Oaks From Little Acorns Grow

Metro Trust
The Metropolitan Trust Company

(Incorporated under The Loan and Trust Corporations Act of Ontario.)

Financial Statements

Auditors' Report

To the Shareholders of
The Metropolitan Trust Company:

We have examined the consolidated balance sheet of The Metropolitan Trust Company as at December 31, 1977 and the consolidated statements of earnings, contributed surplus, reserve fund, retained earnings and changes in financial position for the year then ended and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, according to the best of our information and the explanations given to us and as shown by the books of the company, these consolidated financial statements present fairly the financial position of The Metropolitan Trust Company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
February 10, 1978.

Clarkson, Gordon & Co.
Chartered Accountants

Consolidated Balance Sheet

December 31, 1977

(with comparative figures at December 31, 1976)

Assets

	1977	1976
Cash and bank deposit receipts	$ 47,872,000	$ 28,623,000
Short-term investments, at cost which approximates market value	37,188,000	21,714,000
Bonds:		
Government of Canada and Provincial	27,887,000	27,846,000
Municipal and corporate	5,641,000	6,036,000
Total, at amortized cost (market value 1977 – $33,365,000; 1976 – $33,591,000)	33,528,000	33,882,000
Stocks, at cost (market value 1977 – $14,400,000; 1976 – $12,600,000)	12,742,000	11,838,000
Interest accrued on investments and loans	6,137,000	5,139,000
Fees, commissions and other receivables	612,000	344,000
Mortgages, loans and advances:		
Mortgage loans, at amortized cost	355,288,000	325,226,000
Advances on mortgages to be resold	20,978,000	10,358,000
Advances to estates, trusts and agencies	511,000	182,000
Personal and secured loans	6,509,000	6,394,000
	383,286,000	342,160,000
Investment in affiliated company, Transohio Financial Corporation, at equity (market value $11,447,000) (notes 1(b) and 2)	12,416,000	
Income-producing properties, at cost less accumulated depreciation of $165,000 (1976 – $111,000) (note 11)	4,772,000	2,830,000
Deferred cost of scholarship program, less amortization	202,000	298,000
Premises, equipment and leasehold improvements, at cost less accumulated depreciation and amortization of $1,712,000 (1976 – $1,520,000) (note 11)	1,432,000	1,019,000
	$ 540,187,000	$ 447,847,000

(See accompanying notes to the consolidated financial statements)

Liabilities and Shareholders' Equity

	1977	1976
Deposits and borrowings (note 3):		
Savings and chequing deposits	$ 147,625,000	$ 121,856,000
Term deposits	55,381,000	37,297,000
Investment certificates	274,681,000	244,181,000
Interest accrued on deposits and borrowings	17,617,000	13,064,000
	495,304,000	416,398,000
Other liabilities:		
Sundry accrued liabilities	855,000	889,000
Income taxes payable	1,382,000	483,000
Mortgages payable on income-producing properties	945,000	1,052,000
	3,182,000	2,424,000
Deferred income taxes	2,174,000	2,213,000
Subordinated notes (note 4)	4,122,000	3,946,000
Shareholders' equity:		
Capital stock (note 5) —		
Authorized:		
1,800,000 shares without par value (1976 — 1,000,000)		
Issued:		
1,396,598 shares (1976 — 967,387)	19,284,000	10,692,000
Contributed surplus	2,422,000	2,422,000
Reserve fund	5,500,000	5,000,000
Retained earnings (note 2(b))	8,199,000	4,752,000
	35,405,000	22,866,000
	$ 540,187,000	$ 447,847,000

On behalf of the Board:

Rudolf V. Frastacky,
Chairman of the Board

T. Stewart Ripley,
President

Consolidated Statement of Earnings

For the Year Ended December 31, 1977

(with comparative figures for the year ended December 31, 1976)

	1977	1976
Income:		
Interest on mortgages	$ 36,940,000	$ 29,515,000
Interest and dividends on securities	9,578,000	8,159,000
Interest on personal and secured loans	689,000	659,000
Fees and commissions from —		
Estates, trusts and agencies	2,408,000	2,185,000
Real estate (net)	278,000	541,000
Mortgages	858,000	928,000
Other sources	277,000	252,000
	51,028,000	42,239,000
Expense:		
Interest on deposits and borrowings	36,408,000	31,353,000
Salaries and staff benefits	5,435,000	4,491,000
Premises expense (note 6)	1,275,000	1,098,000
Other operating expenses	3,065,000	2,106,000
	46,183,000	39,048,000
Earnings before income taxes	4,845,000	3,191,000
Income taxes (note 7):		
Current	1,873,000	1,046,000
Deferred	(39,000)	207,000
	1,834,000	1,253,000
Earnings before profits on sales of securities and equity in earnings of affiliated company	3,011,000	1,938,000
Profits on sales of securities (net of income taxes of $273,000 in 1977; $30,000 in 1976)	747,000	31,000
Earnings before equity in earnings of affiliated company	3,758,000	1,969,000
Equity in earnings of affiliated company, since date of acquisition (note 1(b))	684,000	
Net earnings	$ 4,442,000	$ 1,969,000
Earnings per share, based on the weighted average number of shares outstanding (1976 restated to reflect 5% stock dividend paid in 1977):		
Earnings before profits on sales of securities and equity in earnings of affiliated company	$2.92	$2.44
Profits on sales of securities	.72	.04
Equity in earnings of affiliated company	.66	
Net earnings	$4.30	$2.48

(See accompanying notes to the consolidated financial statements)

Consolidated Statement of Changes in Financial Position

For the Year Ended December 31, 1977

(with comparative figures for the year ended December 31, 1976)

	1977	1976
Source of funds:		
Operations —		
Earnings before profits on sales of securities and equity in earnings of affiliated company	$ 3,011,000	$ 1,938,000
Add (deduct) non-cash items:		
Amortization of investments and mortgages	(488,000)	(578,000)
Depreciation of premises and income-producing properties	284,000	235,000
Deferred income taxes	(39,000)	207,000
Amortization of deferred cost of scholarship program	96,000	78,000
Amortization of discount on subordinated notes	176,000	134,000
	3,040,000	2,014,000
Profits on sales of securities	747,000	31,000
Dividends from affiliated company	73,000	
Total from operations	3,860,000	2,045,000
Issuance of subordinated notes		3,312,000
Issuance of capital stock, net of related expenses of $54,000 in 1977 ($81,000 in 1976)	8,533,000	4,630,000
Increase in deposits and borrowings	78,906,000	75,678,000
Proceeds on sale of mortgages	54,842,000	27,244,000
	$ 146,141,000	$ 112,909,000
Application of funds:		
Mortgages, loans and advances	$ 95,714,000	$ 92,371,000
Investments in bonds and stocks	316,000	14,949,000
Investment in affiliated company, Transohio Financial Corporation	11,805,000	
Purchase of income-producing properties, net of mortgages assumed	1,996,000	1,208,000
Additions to premises and equipment (net)	643,000	247,000
Increase in cash and bank deposit receipts and short-term investments	34,723,000	3,585,000
Cash dividends	436,000	329,000
Net increase in other assets	508,000	220,000
	$ 146,141,000	$ 112,909,000

(See accompanying notes to the consolidated financial statements)

Consolidated Statements of Contributed Surplus, Reserve Fund and Retained Earnings

For the Year Ended December 31, 1977

(with comparative figures for the year ended December 31, 1976)

Contributed Surplus

	1977	1976
Balance, end of year (unchanged)	$ 2,422,000	$ 2,422,000

Reserve Fund

	1977	1976
Balance, beginning of year	$ 5,000,000	$ 4,500,000
Add transfer from retained earnings	500,000	500,000
Balance, end of year	$ 5,500,000	$ 5,000,000

Retained Earnings (Note 2(b))

	1977	1976
Balance, beginning of year	$ 4,752,000	$ 3,696,000
Add net earnings	4,442,000	1,969,000
	9,194,000	5,665,000
Deduct:		
Cash dividends	436,000	329,000
Stock dividends (note 5)	5,000	3,000
Transfer to reserve fund	500,000	500,000
Expenses of rights issues	54,000	81,000
	995,000	913,000
Balance, end of year	$ 8,199,000	$ 4,752,000

(See accompanying notes to the consolidated financial statements)

Notes to the Consolidated Financial Statements

December 31, 1977

1. Summary of significant accounting policies

The following is a summary of significant accounting policies followed in the preparation of the consolidated financial statements:

(a) Basis of consolidation —
The consolidated financial statements include the accounts of the company and its subsidiaries, International Savings and Mortgage Corporation (99.01% owned), Canadian First Mortgage Corporation (99.36% owned), Metco Investments Limited (50.05% owned), Scholarship Consultants of North America Ltd. (wholly-owned), CDI Financial Corporation (wholly-owned), Metro Estates Corporation (50.01% owned) and Metrohio Corporation (99.36% owned).

(b) Investment in affiliated company —
Effective September 16, 1977, the company acquired 780,000 shares (representing a 23.66% interest) of Transohio Financial Corporation, a United States savings and loan holding company. This investment is accounted for by the equity method whereby the investment is initially recorded at cost and is adjusted for the company's share of earnings since acquisition less dividends received.

In reflecting the company's equity in the earnings of Transohio Financial Corporation, the following adjustments have been made:

(i) Provision for deferred income taxes required to be provided under Canadian generally accepted accounting principles in respect of statutory bad debt deductions for which no provision for federal income tax is required in the United States.

(ii) Other adjustments arising from amortization of differences between book values and estimated fair values of net tangible assets at acquisition, and amortization (over 20 years) of the excess of the cost of the investment over the estimated fair values of the net tangible assets acquired.

(c) Foreign exchange translation —
The accounts of United States subsidiaries and of Transohio Financial Corporation have been translated into Canadian dollars on the following basis: assets and liabilities, substantially at year-end rates of exchange; income and expenses, at average rates for the year. Gains or losses relating to the translation of assets and liabilities having a fixed life (i.e. mortgage loans and savings certificates) have been deferred and are being amortized into income over the life of the asset or liability. Other translation gains or losses have been included directly in income.

(d) Deferred costs of scholarship program—
The deferred costs of scholarship program represents the acquisition cost less amortization of all of the outstanding shares of Scholarship Consultants of North America Ltd., a company which administered a university scholarship program of which The Metropolitan Trust Company is depository and trustee. As the acquisition results in a reduction of expenses, the cost of the shares is being amortized over the eight-year period 1973-1980 inclusive during which it is estimated the reductions in expenses will be realized.

(e) Depreciation and amortization —
Company-owned premises, including income-producing properties, are depreciated on the straight-line basis over forty years. Improvements to leased premises, and furniture and equipment are depreciated on the straight-line basis over eight years. Automobiles are depreciated on the declining balance basis at an annual rate of 30%.

(f) Fees and commissions —
Fees and commissions on real estate and mortgage transactions are recorded on the

settlement of the transaction. Other fee income is accrued at the time the services are rendered.

(g) Income taxes —
The company follows the tax allocation method of accounting for income taxes. Deferred taxes relate principally to mortgage reserves claimed for tax purposes which are in excess of amounts recorded in the accounts.

2. Investment in affiliated company, Transohio Financial Corporation

(a) Acquisition equation —
As explained in note 1(b), the company's investment in Transohio Financial Corporation is accounted for by the equity method. The acquisition equation at date of acquisition, September 16, 1977, is set out below (in Canadian dollars):

Net tangible assets at book value	$75,884,000
Deduct deferred income taxes required to be provided under Canadian generally accepted accounting principles	29,749,000
Net tangible assets at book value (in accordance with Canadian generally accepted accounting principles)	$46,135,000
Percentage interest acquired	23.66%
Company's interest in net tangible assets at book value	$10,915,000
Adjustments required to state net tangible assets at estimated fair value	(421,000)
Company's interest in net tangible assets at estimated fair value	10,494,000
Excess of purchase price over interest in net tangible assets at fair value	1,311,000
Purchase consideration paid in cash	$11,805,000

(b) Continuity of carrying value of investment —

Original cost		$11,805,000
Add:		
Equity in earnings since acquisition included in retained earnings of $8,199,000 at December 31, 1977	$684,000	
Dividends received	(73,000)	611,000
Carrying value		$12,416,000

(c) Year-end market value of investment —
The market value of the shares of Transohio Financial Corporation is their quoted selling price on the New York Stock Exchange at December 31, 1977 (expressed in Canadian dollars). This value would not necessarily be indicative of the price at which such a large holding could be sold.

(d) Comparative summary of financial data for Transohio Financial Corporation for the years ended December 31, 1977 and 1976, extracted from their audited financial statements —

	(In U.S. dollars) As at December 31	
	1977	1976
Summarized balance sheet	(000's)	(000's)
Assets:		
Cash and investment securities	$ 104,871	$ 128,099
Loans receivable	1,319,882	1,113,661
Property, equipment and other assets	48,509	45,679
	1,473,262	1,287,439
Liabilities:		
Savings deposits and certificates	1,217,963	1,085,797
Advances from Federal Home Loan Bank	112,330	81,030
Other liabilities	65,662	55,786
	1,395,955	1,222,613
Shareholders' equity	$ 77,307	$ 64,826

	For the year	
	1977	1976
Summarized statement of earnings	(000's)	(000's)
Income:		
Interest on loans	$100,861	$82,138
Other income	14,724	16,370
	115,585	98,508
Expense:		
Interest on savings deposits	71,470	62,212
General and administrative	17,902	14,821
Other expense	11,188	9,996
	100,560	87,029
Income before provision for federal income tax	15,025	11,479
Provision for federal income tax	3,339	2,669
Net earnings	$11,686	$ 8,810

Note — the above summarized financial statements are prepared in accordance with U.S. generally accepted accounting principles which differ in some material respects from Canadian practice.

3. Guaranteed trust account

Total deposits and borrowings of $495,304,000 consist of guaranteed trust liabilities of $405,649,000 and deposits and debentures of subsidiary loan corporations of $89,655,000.

Guaranteed trust liabilities are secured by assets as follows:

Cash and bank deposit receipts	$ 30,246,000
Securities	64,409,000
Mortgages	304,272,000
Other loans	6,722,000
	$405,649,000

4. Subordinated notes

Subordinated notes were outstanding as follows:

	1977	1976
10¾% note due January 24, 1981	$ 500,000	$ 500,000
10¾% notes due May 31, 1981	2,000,000	2,000,000
Notes due March 2, 1981*	1,622,000	1,446,000
	$4,122,000	$3,946,000

*Swiss franc notes (S.Frs. 5,000,000) issued on the basis of an 8% discount. The company has fully hedged the amount payable at a cost of 4% per annum.

5. Capital stock

In 1977, the authorized capital stock was increased to 1,800,000 shares without par value. During the year, 429,211 shares were issued as follows:

	Number of shares	Price per share	Increase in capital stock
On exercise of rights granted to shareholders to purchase 3 new shares for each 8 shares held	375,573 5,317	$22.50 25.75	$8,587,000
On declaration of 5% stock dividend (prior to rights issue), for which an amount of 10¢ per share was charged against retained earnings and added to capital stock	48,321		5,000
	429,211		$8,592,000

6. Premises expense

Premises expense includes the following items:

	1977	1976
Depreciation	$ 230,000	$ 202,000
Rentals paid	688,000	648,000
Other	357,000	248,000
	$1,275,000	$1,098,000

Most of the company's branch premises are held under long-term leases extending over the next 14 years. The minimum annual rental payable in 1978 under all leases currently in force totals $441,000.

7. Income taxes

Earnings before income taxes include the following amounts which are not subject to income tax:

	1977	1976
Amortization of investments	$ 109,000	$134,000
Dividends and interest on income bond	1,120,000	591,000
	$1,229,000	$725,000

8. Directors' and officers' remuneration

Remuneration of directors and officers was as follows:

	1977	1976
Directors	$ 39,000	$ 33,000
Officers	713,000	608,000
	$752,000	$641,000

9. Anti-Inflation Program

The company is subject to controls on cash dividends under the Anti-Inflation Act. In the period January 1 to October 13, 1978, dividends on the company's shares may not exceed 35¢ a share, or a total of $492,000.

10. Reclassification of 1976 comparative figures

Certain of the 1976 figures in the consolidated statement of earnings have been re-classified to conform with 1977 classifications.

11. Transactions subsequent to the year-end

(a) In January, 1978, the company invested $4,000,000 in premises.

(b) On January 3, 1978, the company sold 60% of its interest in an income-producing property for proceeds of $1,200,000 resulting in a pre-tax gain of $251,000.

(c) On January 25, 1978, the company acquired an additional 75% interest in the common shares of Canreit Advisory Corporation for $487,000, bringing the company's total interest to 100%. The company's original 25% interest was purchased in 1976 at a cost of $259,000.

Concurrently, the company acquired for $1,553,000, 187,050 trust units (approximately 6% of the total number of units outstanding) of Canadian Realty Investors, a publicly-held real estate investment trust managed by Canreit Advisory Corporation. The terms of the purchase of the trust units provide for an additional payment, to a maximum of $152,000, based on the increase (if any) in the market value of the units between January 25, 1978 and December 31, 1979.

It is the intention of the company to make an offer to all other unitholders of Canadian Realty Investors to purchase up to but not more than 547,000 trust units at a price of $8.30 per unit, or a total of $4,540,000. If all the trust units so offered for are tendered, the company would then hold approximately 24% of the total number of units outstanding.

Maturities Schedule

Maturities of Deposits & Borrowings (000's)

	December 31, 1977						December 31, 1976	
	Investment Certificates	Savings	Short-Term Deposits	Chequing	Total	%	Total	%
On demand and due within 1 year	$ 91,885	$126,288	$55,381	$21,337	$294,891	61.7	$232,468	57.6
1 to 5 years	182,784	—	—	—	182,784	38.3	170,854	42.3
6 to 10 years	12	—	—	—	12	—	12	.1
	$274,681	$126,288	$55,381	$21,337	$477,687	100.0%	$403,334	100.0%

Maturities of Investments (000's)

	December 31, 1977							December 31, 1976	
	Cash and Bank Deposit Receipts	Short Term Investments	Secured Loans and Advances to Clients	Securities	Mortgages	Total	%	Total	%
On demand and due within 1 year	$47,872	$37,188	$7,020	$ 703	$ 72,025	$164,808	32.0	$100,215	23.0
1 to 5 years	—	—	—	27,496	255,552	283,048	55.0	265,210	60.5
6 to 10 years	—	—	—	3,157	23,896	27,053	5.3	36,408	8.3
11 to 15 years	—	—	—	348	13,544	13,892	2.7	10,224	2.3
16 to 20 years	—	—	—	627	5,076	5,703	1.1	3,679	0.8
Over 20 years	—	—	—	1,197	6,173	7,370	1.4	10,643	2.4
Preferred and Common Stock	—	—	—	12,742	—	12,742	2.5	11,838	2.7
	$47,872	$37,188	$7,020	$46,270	$376,266	$514,616	100.0%	$438,217	100.0%


Modern convenient branch premises — 6432 Yonge St., Towne and Countrye Square.

Operations Report

The overall results of your Company, as outlined elsewhere in this report, were outstanding. Unquestionably, factors such as the substantial security profits and earnings from Transohio and an early drop in interest rates during the year were major factors in our earnings performance. But the contribution and resourcefulness of our staff in promoting our products and services and managing our resources were key ingredients to your Company's success.

Operating earnings before taxes, security profits and earnings from Transohio increased 52 per cent from $3,191,000 in 1976 to $4,845,000 in 1977. This increase can be directly related to gains made in our deposit taking and mortgage lending activities. Overall fee income was down slightly from the previous year.

Our total deposits, net of accrued interest, reached $477,687,000. Of this, $74,400,000 was generated by our branch operations, a gain in this sector of 23.4% over 1976. This growth in deposits was accompanied by a 15 percent gain in the number of demand account depositors, an area in which we had experienced a slight decline the previous year.

These results substantiate our decision to embark on a much expanded marketing and advertising campaign in 1977. This program emphasized our daily interest Golden Acorn savings account and absolutely free chequing. Cost-conscious consumers heard our message and in increasing numbers adopted our theme, "Get Movin' to Metro Trust".

Our ratio of demand deposits to total deposits now stands at 34.4% up 3.7% from 1976. This is in keeping with our objective to increase the spread between interest paid on deposits and earned on the reinvestment of these monies. This approach can create a greater variance in earnings from year to year as demand deposits are more sensitive to fluctuations in interest rates. However, the introduction in 1976 of flex-term mortgages which permits a borrower to apply for a mortgage with a term of from one to five years allows us to better match maturities of assets and liabilities, thus providing stability for future earnings.

In anticipation of the increased volumes resulting from our marketing program, we entered the world of automation in our branch operations during the year. With the research and support of our systems division, all 13 Toronto area branches were equipped with ACORN, a computerized real time on-line teller facility. This major step allowed us to handle increased volumes without increasing branch staff. Some minor refinements are planned

Medical Centre,
financed by Metro Trust — Toronto.

to this system in 1978 in response to customer and staff suggestions. When these are completed, expansion of ACORN will go forward as planned and as needs dictate.

In addition to providing invaluable management information, the ACORN system provides a framework for expansion into other customer services. We anticipate adding automated teller machines (A.T.M.'s) to our system. A pilot project for this purpose has already been initiated which, if successful, will provide customers with faster deposit and withdrawal service and a preauthorized line of credit facility. The use of A.T.M.'s at branches and in remote locations could allow us to offer after hours service as well.

Despite these innovations and the potential they hold for branch expansion via mini branches in remote locations, we have continued to steadily expand our network of traditional branches. We opened our twenty-third branch in Milton, Ontario in December. Well located in the Milton Mall, which serves the regional communities of Halton and Peel, we were more than pleased with the initial results. They far surpassed the opening achievements of any of our other branches. Also in December we concluded arrangements for our twenty-fourth branch to open early in 1978 in the Harwood Mall in Ajax.

Our branches also act as the focal point for attracting personal and collateral loans. Competitive rates and a growing number of deposit customers increased our accounts in this service by 39 percent. We anticipate greater dollar volume results in 1978, through continued customer growth and the expansion of our involvement with American Express by offering their Executive Gold Card to a broader market. The introduction of an automated system to service consumer loans will allow us to respond more effectively to these increased volumes.

The combined efforts of our mortgage underwriting and banking divisions resulted in total mortgage financings funded during the year of $133,000,000. This raised our total portfolio, serviced for both Company and client accounts, to just over three quarters of a billion dollars. Over 50 percent of this portfolio is serviced for institutional and individual clients in North America and abroad.

Mortgage sales of $92.3 million reflect a continued growing interest in this type of security for investment portfolios. Of this total $54.8 million was sold directly from our own portfolio, a 101 percent increase over the previous year. Such sales provide a continuing source of fee income from the servicing of these mortgages. This currently accounts for 20 percent of our pre-tax earnings.

Mortgage arrears and defaults are a continuing concern. The general state of the economy, unemployment and the pressures brought to bear by the federal government in 1976 on institutions such as ours for greater participation in low cost housing schemes are all contributing factors. During the year we acquired, through foreclosure, twelve properties with a mortgage value of $520,000. All but two of these mortgages were insured against loss by government or private sources. During the year losses in this area were $1,677 compared to $2,255 in 1976.

Fee income in the majority of other operating areas showed an increase. Property Management, primarily through its increasing involvement in condominium management, experienced a 15 percent gain in fees. We now have slightly more than 8,000 residential units under management, 35 percent of which are condominium units. A growing involvement in management of commercial and industrial properties contributed to this gain and helped to balance the sources of these revenues.

More and more of the activities in our trust operations centre in the area of tax deferral plans.

"All kinds of loans for all kinds of people"

Although many new schemes for this purpose surfaced in 1977, R.R.S.P.'s and R.H.O.S.P.'s still form a basis in consumer tax planning as evidenced by our 70 percent increase in new plans during the year. Following closely behind this activity, our corporate trust area experienced a 23 percent increase in fee income derived to a great extent from a 59 percent increase in new stock transfer agencies. Personal trust services paralleled this growth with a 60 percent increase in new accounts accompanied by a 15 percent increase in fee income. Assets under administration in our corporate pension area increased 65 percent. We are currently administering both a United States and Canadian indexed fund for one of our major corporate clients and consideration is being given to opening this up to other corporate pension plans on a pooled fund basis. An increase of 16 percent in fee income from our corporate agency section, which manages the business affairs of a substantial number of private companies, rounded out the fee income from trust services.

Real estate sales which have been a traditional service of our Company, particularly in the investment properties sector, continued to be sluggish throughout the year. Fee income from this source was not up to expectations. However, a change in direction during the year involving the Company as a principal purchaser of property, with subsequent resale of a major interest to other participants, showed promise. At year-end we had acquired a number of viable properties in Canada and the United States, which could enhance earnings from this sector in 1978. We have continued our program of franchising residential real estate offices, thereby minimizing our cost exposure in a soft market period.

Our Western region continues to expand at a satisfactory rate. The Edmonton branch, which is the main office in the West, has had exceptional gains in both the deposit and mortgage sectors. Similarly, despite the confusion that exists over future relationships, Quebec branches continued as significant contributors to our overall performance.

Company growth has increased the need for better trained staff. Our personnel division, in conjunction with other divisions, has responded to this need. In-house staff training programs were conducted during the year in areas such as mortgage administration, trust services and branch automated systems. Through the Trust Companies Institute we had 14 successful candidates write exams in the mortgage discipline. Three of our property managers successfully achieved the designation of Certified Property Manager. With the advent of computerized operations, there has been a decline in mechanical routines in our branches. As a result, a consumer relations training program was introduced late in the year, designed to enhance branch staff skills in dealing with customers.

In 1978 we intend to continue our emphasis on automated systems training and the development of services more attuned to the cost-conscious consumer. A major service in the past, scholarship trust plans will be re-introduced. Previously, Metro Trust had acted only as depository and trustee for these plans. Now, as an active partner in a subsidiary company, we will be involved in the marketing of these plans as well.

With growth comes the need for operating space. Therefore, late in the year we purchased our present Head Office premises. This will provide us with the necessary space for expansion as current leases expire and secure our presence in the heart of Canada's major financial community.

We anticipate the impetus of 1977 will continue. The initiatives taken in marketing, automated systems, training, investments and acquisitions have prepared us for a challenging and profitable future.

Directors

* Rudolf V. Frastacky
Chairman of the Board — The Metropolitan Trust Company

* T. Stewart Ripley, C.T.C.I.
President and Chief Executive Officer —
The Metropolitan Trust Company

* Jan Duinker
Vice-President — The Metropolitan Trust Company
President — ABN Canada Limited

Louis G. Allen
President and Chief Administrative Officer —
Manufacturers National Bank of Detroit

J. Christopher Barron
President — Cassels, Blaikie & Co. Limited

Sonja I. Bata
Director — Bata Limited

* Peter J. M. Bloemen
President — Trucena Investments Limited

* John D. Bradley
President — Bradley Farms Limited
President — First Chatham Corporation

Joseph A. N. Chiappetta, Q.C.
Barrister and Solicitor — Partner —
Gambin, Bratty, Chiappetta, Morassutti & Caruso

Dr. Helmut Frost
General Partner — Simonbank AG
Duesseldorf, West Germany

The Hon. Douglas S. Harkness, P.C., G.M., E.D., B.A.
Member of the Privy Council of Canada
Farmer

* J. Alex Langford, Q.C.
Barrister and Solicitor — Partner —
Miller, Thomson, Sedgewick, Lewis & Healy

Dr. Hans Peter Linss
Bank Director and Member of the Management Committee —
Bayerische Landesbank Girozentrale, Munich, West Germany

* J. Jacques Pigott
Executive Vice-President — Pigott Construction Company Limited

Senator, The Hon. Richard J. Stanbury, Q.C.
Barrister and Solicitor — Partner — Cassels, Brock

Nikolaus von Niessen
Manager — Credit Suisse (Canada) Limited

Dr. Hans Heinrich Ritter von Srbik
General Partner — Bankhaus H. Aufhauser, Munich, West Germany

* *Member of Executive Committee*

Officers

Honorary Chairman of the Board —
The Right Hon. Roland Michener, P.C., Q.C.

Chairman of the Board — Rudolf V. Frastacky

President and Chief Executive Officer —
T. Stewart Ripley, C.T.C.I.

Vice-President — Jan Duinker

Vice-President and General Manager —
A. Jack Russell, M.T.C.I.

Vice-President, Mortgage Division —
Philip A. Armstrong, M.T.C.I.

Vice-President, Communications and Corporate Affairs —
James D. Beatty

Vice-President, Corporate Systems Division —
Joseph A. DeKort, M.T.C.I.

Vice-President, Western Region —
J. William K. Hunt, M.T.C.I.

Vice-President, Marketing —
Frederick J. Lockhart

Vice-President, Branch Division —
William J. Shaw

Vice-President, Real Estate Division —
Ted. G. H. Stella, C.P.M., M.T.C.I.

Vice-President, Trust Division —
Warren Thompson, M.T.C.I.

Vice-President and Chief Financial Officer —
Lloyd B. Will, M.T.C.I.

Controller — Christopher W. C. Thomson, C.A.

Assistant Controller — Ivan N. Svendsen

Manager, Personnel — Kenneth A. Garner

Assistant Secretary — Joyce Baker

Metro Trust
The Metropolitan Trust Company

Head Office

353 Bay Street, Toronto	869-1880

Savings Branches

Toronto and Area: Peter Boughner, Area Mgr.	869-1880
353 Bay St., Ken MacStephen, Mgr.	869-3494
3038 Bloor St. W., Lynne Russell, Mgr.	236-1107
2326 Bloor St. W., John DeJong, Mgr.	763-5551
665 Danforth Ave., Roger Schmidt, Mgr.	461-0221
43 Eglinton Ave. E., Ethel Natolochny, Mgr.	485-1173
852 Eglinton Ave. W., Robert Reeves, Mgr.	789-2149
45 Overlea Blvd., Jim Williams, Mgr.	421-3900
1171 St. Clair Ave. W., Rocco Zenga, Mgr.	654-8906
628 Sheppard Ave. W., Dorothy Donaghy, Mgr.	638-1955
1250 South Service Rd., Don Rogers, Mgr.	274-3681
1603 Wilson Ave., Tony Barbusci, Mgr.	244-1101
6432 Yonge St., Stuart Mullarkey, Mgr.	223-6420
Ajax:	
314 Harwood Ave. S., John Price, Mgr.	683-7344
Milton:	
55 Ontario St. S., Vic Snow, Mgr.	878-4173
Smiths Falls:	
275 Brockville St., Dennis Webb,, Mgr.	283-2641
Windsor:	
500 Ouellette Ave., Lloyd Wicks, Area Mgr.	
Ted Alexander, Mgr.	252-7712
Chatham:	
635 Grand Ave. W., John McKay, Mgr.	354-5110
Montreal:	
2324 Lucerne Rd., Jean Marcoux, Area Mgr.	735-1155
4861 Van Horne Ave., Pat Nicell, Mgr.	731-6883
7075 Cote St. Luc Rd., Fred Becker, Mgr.	486-7393
5268A Queen Mary Rd., Helen Schwab, Mgr.	481-2752
Vancouver:	
544 Howe St., Vic Brown, Mgr.	688-0251
927 Marine Dr., Mike Oram, Mgr.	980-6061
Edmonton:	
10225 Jasper Ave., Robert Wigmore, Mgr.	428-6735

Real Estate Offices:

1599 Ellesmere Rd., Scarborough, Ont.	438-9766
1250 South Service Rd., Dixie Plaza, Mississauga	274-3663
400 Adelaide St. N., London, Ont.	672-0520
344 O'Connor St., Ottawa, Ont.	563-1155
353 Bay St., Toronto, Ont.	869-1880
544 Howe St., Vancouver, B.C.	689-8761
10014-109th St., Edmonton, Alta.	429-2215

Property Management:

15 Toronto St., Toronto, Ont.	869-1100
116 Lisgar St., Ottawa, Ont.	238-8660

Appraisal:

353 Bay St., Toronto, Ont.	869-1880

Subsidiary Companies:

Canreit Advisory Corporation
CDI Financial Corporation
Canadian First Mortgage Corporation
International Savings and Mortgage Corporation
Scholarship Consultants of North America Ltd.
Metco Investments Limited
Metropolitan Estates Corporation

Printed in Canada

Metro Trust
The Metropolitan Trust Company

AR11

HEAD OFFICE:

353 Bay Street, Toronto	869-1880

SAVINGS BRANCHES:

TORONTO AND AREA:

353 Bay Street, Toronto (at Temperance)	869-3494
2326 Bloor Street West, Toronto (at Windermere)	763-5551
3038 Bloor Street West, Toronto (near Royal York Rd.)	236-1107
681 Danforth Avenue, Toronto (near Pape)	461-0221
43 Eglinton Ave. East, Toronto (near Yonge)	485-1173
852 Eglinton Ave. West, Toronto (at Bathurst)	789-2149
45 Overlea Blvd., Toronto (Thorncliffe Market Place)	421-3900
628 Sheppard Ave. West, Downsview (near Bathurst)	638-1955
1171 St. Clair Ave. West, Toronto (at Dufferin)	654-8906
1603 Wilson Ave., Downsview (near Jane)	244-1101
6432 Yonge St., Willowdale (Towne & Countrye Square)	223-6420

MISSISSAUGA:

1250 South Service Rd., Mississauga (Dixie Plaza)	274-3681

CHATHAM:

635 Grand Ave., Chatham, Ontario (Thameslea Shopping Centre)	354-5110

SMITH FALLS:

275 Brockville St. (County Fair Mall)	283-2641

WINDSOR:

500 Ouellette Ave., Windsor, Ontario (The Metropolitan Trust Building)	252-7712

MONTREAL AREA:

7075 Cote St. Luc, Montreal (Cote St. Luc Shopping Centre)	486-7393
2324 Lucerne Rd., Montreal (Town of Mount Royal)	735-1155
5268a Queen Mary Rd., Montreal (near Decarie)	481-2752
4861 Van Horne Ave., Montreal (Van Horne Shopping Centre)	731-6883

VANCOUVER AREA:

544 Howe St., Vancouver, B.C.	688-0251
927 Marine Drive, North Vancouver, B.C. (Capilano Mall)	980-6061

EDMONTON:

10225 Jasper Ave., (near 101 St.) Edmonton, Alberta	428-6735

REAL ESTATE OFFICES:

353 Bay Street, Toronto	869-1880
1599 Ellesmere Road, Scarborough	438-9766
1250 South Service Road, Dixie Plaza, Mississauga	274-3663
400 Adelaide Street North, London	672-0520
344 O'Connor Street, Ottawa	563-1155
544 Howe Street, Vancouver	689-8761
9932-70th Avenue, Edmonton	439-6649

PROPERTY MANAGEMENT:

15 Toronto Street, Toronto	869-1100
116 Lisgar Street, Ottawa	238-8660

interim report 1977

Metro Trust
The Metropolitan Trust Company

SUBSIDIARY COMPANIES:

CDI Financial Corporation
Canadian First Mortgage Corporation
International Savings and Mortgage Corporation
Scholarship Consultants of North America Ltd.
Metco Investments Limited
Metropolitan Estates Corporation

The Metropolitan Trust Company

(Incorporated under The Loan and Trust Corporations Act of Ontario)

and its subsidiaries

Consolidated Balance Sheet

June 30, 1977 (with comparative figures at June 30, 1976)
(Unaudited)

ASSETS

	1977	1976
Cash and bank deposit receipts	$ 33,134,000	$ 36,862,000
Short-term investments, at cost which approximates market value	17,377,000	14,931,000
Bonds:		
Government of Canada and Provincial	25,337,000	29,400,000
Municipal and Corporate	5,828,000	6,232,000
Total, at amortized cost (market value 1977 — $31,011,000; 1976— $34,274,000)	31,165,000	35,632,000
Stocks, at cost (market value 1977 — $14,325,000; 1976 — $6,651,000)	12,468,000	6,147,000
Interest accrued on investments and loans	6,380,000	4,740,000
Fees, commissions and other receivables	429,000	402,000
Mortgages, loans and advances:		
Mortgage loans, at amortized cost	362,326,000	275,710,000
Advances on mortgages to be resold	13,657,000	13,851,000
Advances to estates, trusts and agencies	232,000	487,000
Personal and secured loans	5,049,000	4,989,000
	381,264,000	295,037,000
Income-producing properties, at cost less accumulated depreciation of $138,000 (1976 — $92,000)	3,784,000	1,263,000
Deferred cost of scholarship programme, less amortization	250,000	336,000
Premises, equipment and leasehold improvements, at cost less accumulated depreciation and amortization of $1,634,000 (1976 — $1,437,000)	1,186,000	1,058,000
	$487,437,000	$396,408,000

LIABILITIES AND SHAREHOLDERS' EQUITY

	1977	1976
Deposits and borrowings:		
Savings and chequing deposits	$129,860,000	$106,312,000
Term deposits	52,943,000	28,846,000
Investment certificates	255,651,000	226,006,000
Interest accrued on deposits and borrowings	15,676,000	10,475,000
	454,130,000	371,639,000
Other liabilities:		
Sundry accrued liabilities	655,000	524,000
Income taxes payable	469,000	334,000
Mortgages payable on income-producing properties	1,604,000	695,000
	2,728,000	1,553,000
Deferred income taxes	2,213,000	2,042,000
Subordinated notes	4,032,000	3,865,000
Shareholders' Equity:		
Capital stock — Authorized: 1,200,000 shares without par value Issued: 1,015,708 shares (1976 — 690,991)	10,696,000	5,981,000
Contributed surplus	2,422,000	2,422,000
Reserve fund	5,000,000	4,500,000
Retained earnings	6,216,000	4,406,000
	24,334,000	17,309,000
	$487,437,000	$396,408,000

On behalf of the Board:

RUDOLF V. FRASTACKY, Chairman of the Board

T. STEWART RIPLEY, President

The Metropolitan Trust Company

and its subsidiaries

Consolidated Statement of Earnings for the six months ended June 30, 1977

(with comparative figures for the six months ended June 30, 1976)

(Unaudited)

	1977	1976
INCOME:		
Interest on mortgages	$18,651,000	$14,189,000
Interest and dividends on securities	3,940,000	3,988,000
Interest on personal and secured loans	365,000	317,000
Fees and commissions from —		
Estates, trusts and agencies	1,135,000	992,000
Real estate	98,000	227,000
Mortgages	408,000	224,000
Other sources	104,000	159,000
	24,701,000	20,096,000
EXPENSE:		
Interest on deposits and borrowings	17,731,000	14,442,000
Salaries and staff benefits	2,651,000	2,198,000
Premises expense	662,000	527,000
Other operating expenses	1,363,000	1,214,000
	22,407,000	18,381,000
Earnings before income taxes (Note 1)	2,294,000	1,715,000
Income taxes	831,000	684,000
Earnings before profits on sales of securities	1,463,000	1,031,000
Profits on sales of securities less related income taxes of $7,000 (1976 — $12,000)	6,000	11,000
NET EARNINGS	$ 1,469,000	$ 1,042,000

Earnings per share, based on the weighted average number of shares outstanding (Note 2):	1977	1976
Earnings before profits on sales of securities	$ 1.44	$ 1.40
Profits on sales of securities	.01	.01
NET EARNINGS	$ 1.45	$ 1.41

Notes:

1. Earnings before income taxes include non-taxable dividends and amortization totalling $625,000 (1976 — $297,000).
2. The 1976 comparative earnings per share have been restated to reflect the 5% stock dividend paid in June of 1977.

Consolidated Statements of Contributed Surplus, Reserve Fund and Retained Earnings for the six months ended June 30, 1977

(with comparative figures for the six months ended June 30, 1976)

(Unaudited)

Contributed Surplus

	1977	1976
BALANCE, BEGINNING AND END OF PERIOD	$2,422,000	$2,422,000

Reserve Fund

	1977	1976
BALANCE, BEGINNING AND END OF PERIOD	$5,000,000	$4,500,000

Retained Earnings

	1977	1976
BALANCE, BEGINNING OF PERIOD	$4,752,000	$3,696,000
Add net earnings	1,469,000	1,042,000
	6,221,000	4,738,000
Deduct:		
Stock dividends captialized at 10 cents per share — 48,321 shares (1976 — 32,866 shares)	5,000	3,000
Cash dividends	—	329,000
	5,000	332,000
BALANCE, END OF PERIOD	$6,216,000	$4,406,000

The Metropolitan Trust Company

Interim Report to Shareholders for the Six Months Ended June 30, 1977

Your Company continued its record growth in the first half of 1977.

Earnings before profits on sales of securities increased by 42% from $1,031,000 in 1976 to $1,463,000 for the six months ended June 30, 1977.

Earnings per share before profits on sales of securities increased from $1.40 in 1976 to $1.44 in 1977.

We feel that this growth in earnings is a considerable achievement in light of the dilution caused by the rights issue last October which increased the number of outstanding shares by 40% as well as the fact that we have not yet received full benefit from the additional leverage derived from the rights issue.

Assets increased by 23% from $396,408,000 in 1976 to $487,437,000.

Your Company experienced substantial growth in deposits which increased from $371,639,000 at June 30, 1976 to a total of $454,130,000; an increase of 22%.

In order to ensure the continued growth of your Company in the future, a new branch on-line computer system was introduced during the first half of 1977. This system was introduced in the Company's head office branch in the spring and has met all expectations. Plans are now underway to implement the system in the remaining Toronto branches by the end of 1977.

In January of this year, your Company formed a new subsidiary, Metropolitan Estates Corporation. This company provides a vehicle for Canadian and non-resident investment in United States properties, and the results to date have been encouraging.

Barring any significant increases in interest rates over the next six months, we anticipate that earnings for the second half of 1977 will be in line with those of the first half.

On June 15th, 1977, your Company paid a 5% stock dividend. In addition, we are pleased to announce the payment of a cash dividend of 43¢ a share, the maximum allowed under the Anti-Inflation Act, on November 15th, 1977 to shareholders of record at October 31, 1977.

On July 28, 1977 your Company announced that it had agreed in principle to buy 24.5% of Transohio Financial Corporation (780,000 shares at U.S. $13.75 per share) for U.S. $10.7 million. The agreement is subject to approval by Canadian and U.S. regulatory bodies.

Transohio is the largest U.S. publicly owned Savings & Loan holding company outside of California. It operates 55 offices and has total assets of about $1.41 billion at June 30, 1977.

Net income (unaudited) for the six months ended June 30, 1977 was $5.4 million or $1.68 per share. For the year ended December 31, 1976, net income was $8.8 million or $2.71 per share. It is listed on the New York Stock Exchange.

President